Supreme Court, U.S.
FILED
APR 27 1995
OFFICE OF THE CLERK

No. 94-1608

In The

# Supreme Court of the United States

October Term, 1994

NTN COMMUNICATIONS, INC.,

*Petitioner,*

v.

INTERACTIVE NETWORK, INC.,

*Respondent.*

**On Petition For Writ Of Certiorari To The United States Court Of Appeals For The Federal Circuit**

## BRIEF IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI

JAMES H.A. POOLEY
*Counsel of Record*

HANS R. TROESCH
FRANK E. SCHERKENBACH

FISH & RICHARDSON P.C.

2200 Sand Hill Road, Suite 100
Menlo Park, California 94025
Telephone: (415) 322-5070
Facsimile: (415) 854-0875

*Attorneys for Respondent Interactive Network, Inc.*

COCKLE LAW BRIEF PRINTING CO., (800) 225-6964
OR CALL COLLECT (402) 342-2831

## QUESTION PRESENTED

Whether this Court should make new law to allow an accused infringer a second opportunity to challenge the validity of a patent, on grounds expressly contradicting admissions of evidentiary fact made in settlement of prior litigation challenging the patent.

TABLE OF CONTENTS

Page

STATEMENT OF THE CASE ..... 2

SUMMARY OF ARGUMENT ..... 4

ARGUMENT ..... 5

I THE JUDGMENT OF THE FEDERAL CIRCUIT SUMMARILY AFFIRMING THE JUDGMENT OF THE DISTRICT COURT IS NOT CONTRARY TO *LEAR* ..... 5

II THIS CASE DOES NOT PRESENT, AND THERE IS NO NEED FOR THIS COURT TO DECIDE, ANY "IMPORTANT FEDERAL QUESTION OF WHETHER TO FURTHER RESTRICT PATENT VALIDITY CHALLENGES" ..... 7

III RESOLUTION OF THIS CASE DEPENDS ON THE INTERPRETATION OF THE SPECIFIC SETTLEMENT AGREEMENT AT ISSUE IN THE CONTEXT OF THE RELATIONSHIP BETWEEN THESE PARTIES, NOT ON ANY LEGAL QUESTIONS OF BROADER IMPORTANCE OR CONSTITUTIONAL MOMENT .. 8

CONCLUSION ..... 9

# TABLE OF AUTHORITIES

Page

CASES

*Estate of Wilson*, 64 Cal. App. 3d 786, 134 Cal. Rptr. 749 (1976) ..... 5

*Hemstreet v. Spiegel, Inc.*, 851 F.2d 348 (Fed. Cir. 1988) ..... 4, 6, 7

*Lear, Inc. v. Adkins*, 395 U.S. 653 (1969) ...2, 4, 5, 6, 7, 9

STATUTES AND RULES

35 U.S.C. § 102 ..... 2, 3, 5

35 U.S.C. § 103 ..... 2

35 U.S.C. § 112 ..... 2

Cal. Evid. Code § 622 ..... 5

Sup. Ct. R. 29 ..... 1

No. 94-1608

In The

# Supreme Court of the United States

October Term, 1994

NTN COMMUNICATIONS, INC.,

*Petitioner,*

v.

INTERACTIVE NETWORK, INC.,

*Respondent.*

**On Petition For Writ Of Certiorari To The United States Court Of Appeals For The Federal Circuit**

## BRIEF IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI

Respondent Interactive Network, Inc. ("Interactive")[1] respectfully opposes Petitioner NTN Communications, Inc.'s ("NTN") petition for a writ of certiorari to review the decision of the United States Court of Appeals for the Federal Circuit in this case.

[1] Pursuant to Rule 29 of this Court, Interactive states that it has no parent company or subsidiaries (other than wholly-owned subsidiaries).

## STATEMENT OF THE CASE

NTN's statement of the question presented and of the case are both misleading because they represent that NTN was somehow estopped from challenging the validity of the patent in suit. For example, NTN claims this case presents the question "whether it is constitutionally permissible, pursuant to *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969), for state law estoppel doctrines to bar a licensee's renewed validity challenge to the licensed patent, where the estoppel is based on the licensee having dismissed its prior validity challenge without prejudice." [NTN Petition for Certiorari ("Petition") at i] NTN's "Statement" of the case continues the theme; the focus of the Statement, and indeed of the entire Petition, is NTN's charge that the district court estopped NTN from challenging the validity of the patent. [Petition at 3, 4, 8] However, a simple review of the district court opinion [A1-12] will show that this charge is wrong and that this case does not present the question NTN poses.

The district court acknowledged that NTN *could* challenge the validity of the licensed patent on a host of grounds, including sections 102, 103 and 112 of the Patent Act (Title 35 of the United States Code). [A9-10] However, the court also observed that NTN could not prove invalidity by disregarding a binding recital of evidentiary fact in an agreement settling prior litigation brought by NTN against the patent. The recital is a key fact in this case, but one which the Petition entirely ignores.

In particular, the heart of NTN's invalidity challenge was its claim that the patent named incorrect inventors and therefore was invalid under section 102(f) of the

Patent Act. [A10] The only evidence NTN offered in support of this claim was the allegation that NTN itself, not the individuals named on the patent, was the true inventor [A10]. Unfortunately for NTN, that allegation squarely contradicted the following recital contained in the settlement agreement:

> 1. The inventions claimed in United States Patent No. 4,592,546 (the "Patent") were conceived of, developed, and reduced to practice independently of the efforts of NTN or of its employees and without use of proprietary information belonging to NTN.

[A7]

As for NTN's validity challenges under the remaining statutory sections, the court determined that

> with respect to NTN's claim of patent invalidity under §§ 102, 103, 112, and 116, the Court finds NTN has failed to bring forth sufficient evidence to establish genuine issues of material facts in dispute. NTN does not argue, and there is no specific evidence supporting a claim of, lack of novelty, obviousness, or failure to set forth the best mode of the invention.

[A9-10]

In short, NTN's section 102(f) challenge was foreclosed by facts NTN had conceded in settlement of prior litigation, while its remaining validity challenges failed for lack of evidence. NTN made its validity challenges, but lost.

## SUMMARY OF ARGUMENT

The petition should be denied because this case does not present any questions of constitutional proportion, including the question posited by NTN: whether *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969), should be interpreted to allow a licensee to challenge the validity of a licensed patent, notwithstanding the settlement and dismissal of prior litigation by the licensee raising the same validity challenge. Since NTN was allowed to and did challenge the validity of the patent, *Lear* does not apply. NTN lost, not because it could not make the claims it wanted, but because it had no admissible evidence to support them. In particular, NTN's primary validity challenge contradicted a binding recital of evidentiary fact in a prior settlement agreement – a situation *Lear* did not address and therefore does not control. NTN's statement of the question presented and its Petition simply misapprehend the basis on which Interactive moved for summary judgment, the district court granted summary judgment, and the Federal Circuit summarily affirmed.

Since *Lear* is irrelevant to this case, the judgment of the Federal Circuit summarily affirming the judgment of the district court is not contrary to *Lear*. For the same reason, this case does not present any important federal question of whether further to restrict patent validity challenges. It is clear enough from *Lear* and from a Federal Circuit decision that NTN declines to cite, *Hemstreet v. Spiegel, Inc.*, 851 F.2d 348 (Fed. Cir. 1988), that *Lear* is not a carte blanche escape from settlement agreements that licensees think better of when circumstances change.

Resolution of this case depends on the interpretation of the specific settlement agreement at issue in the context of the relationship between these particular parties, not on any legal questions of broader importance or constitutional moment.

## ARGUMENT

### I

### THE JUDGMENT OF THE FEDERAL CIRCUIT SUMMARILY AFFIRMING THE JUDGMENT OF THE DISTRICT COURT IS NOT CONTRARY TO *LEAR*.

As noted above, *Lear* has no application here because NTN was allowed to and did challenge the validity of the patent. Therefore, the district court judgment under attack and the Federal Circuit judgment affirming it are not "contrary to the policies announced by this Court in *Lear*". [Petition at 6]

Equally fundamental, NTN could not prove its primary invalidity claim based on section 102(f) because the claim is doomed by the factual recital quoted above – which *Lear* can do nothing about. *Lear* does not change the facts. It merely preserves for licensees the right to challenge the validity of a licensed patent in a suit for royalties by the licensor, traditional equitable and contractual impediments notwithstanding. 395 U.S. at 672-74.

As Interactive pointed out below, California conclusively presumes the facts recited in a written instrument to be true as between the parties. Cal. Evid. Code § 622; *Estate of Wilson*, 64 Cal. App. 3d 786, 800, 134 Cal.

Rptr. 749, 757 (1976). *Lear* did not consider or presume to displace a state policy of giving binding effect to recitals of evidentiary *facts* in written agreements, particularly settlement agreements entered with full knowledge of the facts relevant to the recital. The recital therefore is binding and precludes NTN from proving its inventorship defense by claiming, as it did, that the named inventors derived the patented inventions from NTN.

Finally, the Federal Circuit decision in this case is not contrary to *Lear* because even if NTN had been precluded from challenging validity – which it was not – the policies underlying *Lear* do not require or suggest that a court disregard agreements made in settlement of, and disposing of issues raised in, prior litigation. In affirming a district court's refusal to grant relief from a settlement agreement that required royalty payments regardless of the validity of the licensed patents, the Federal Circuit observed in *Hemstreet v. Spiegel, Inc.*, 851 F.2d 348, 350 (Fed. Cir. 1988):

> *Lear*, however, did not involve a settlement of litigation, but only the right of a patent licensee to challenge the validity of the licensed patent. The enforcement of settlement of litigation involves another public policy totally absent in *Lear*: the encouragement of settlement of litigation and the need to enforce such settlements in order to encourage the parties to enter into them.

Thus, even if NTN had been precluded from challenging validity because of the settlement agreement, the policies underlying *Lear* would not be offended. It is thus irrelevant to observe, as NTN does, that the formal dismissal

of NTN's prior litigation challenging the validity of the patent was "without prejudice".

## II

## THIS CASE DOES NOT PRESENT, AND THERE IS NO NEED FOR THIS COURT TO DECIDE, ANY "IMPORTANT FEDERAL QUESTION OF WHETHER TO FURTHER RESTRICT PATENT VALIDITY CHALLENGES".

This Court should not and indeed cannot decide "whether the dismissal without prejudice of a validity challenge can override *Lear* and operate as an estoppel against a future validity challenge by a licensee" [Petition at 10] because, as noted above, that question is not presented in this case. However, even if it were, the Court need not and should not consider it.

With the possible exception of NTN, no one needs "clarification as to the circumstances under which the law of the Supreme Court in *Lear* will apply to allow a challenge to the validity of a patent by a licensee." [Petition at 11] To Interactive's knowledge, no case has extended *Lear* to disregard recitals of evidentiary facts and *Hemstreet* makes clear that principles of repose and the encouragement of settlements preclude extension of *Lear* to cases like this one involving the settlement of prior litigation.

In addition, NTN's fear that the result in this case "would act as a deterrent to settlement" [Petition at 11] is misplaced, at best, because it is based on the fundamental misunderstanding that the district court in this case precluded NTN from challenging the validity of the patent. The opposite is true. Far from deterring settlement, the law as interpreted and applied by the district court and

the Federal Circuit in this case *allows* a litigant like NTN to preserve some and dispose of other validity challenges as it wishes, by including appropriate language in either a settlement agreement or a consent judgment. This encourages settlement, because it allows the litigants to go about their business without resolving on the merits every validity defense raised in litigation. Adopting the rule that NTN wants would have the opposite effect. It would guarantee that no sensible patentee would ever settle patent litigation, because the promises and representations made to induce the settlement later could be disregarded at whim.

## III

## RESOLUTION OF THIS CASE DEPENDS ON THE INTERPRETATION OF THE SPECIFIC SETTLEMENT AGREEMENT AT ISSUE IN THE CONTEXT OF THE RELATIONSHIP BETWEEN THESE PARTIES, NOT ON ANY LEGAL QUESTIONS OF BROADER IMPORTANCE OR CONSTITUTIONAL MOMENT.

Since resolution of this case turned on a specific factual recital in a specific settlement agreement between these particular parties, this case does not raise constitutional issues or important federal questions; nor does it turn even on typical patent license provisions that might have some broader interest or applicability. It depends on the peculiar facts. Interactive is unaware of another invalidity challenge premised on derivation of the invention from the challenger, which failed because the challenger itself had earlier conceded that it was not the source of the patented inventions. Accordingly, this Court

should decline NTN's invitation to extract NTN from its present, deserved predicament.

## CONCLUSION

Because NTN could and did challenge the validity of the patent in suit, because NTN's primary invalidity challenge contradicted a prior factual recital, and because NTN made that recital in settlement of prior litigation, *Lear* properly played no role in the consideration or disposition of this case. In addition, this case presents no federal questions of broader importance but turns instead on its own peculiar facts. For all of these reasons, this Court should deny NTN's petition for a writ of certiorari.

DATED: April 27, 1995

Respectfully submitted,

JAMES H.A. POOLEY
*Counsel of Record*

HANS R. TROESCH
FRANK E. SCHERKENBACH

FISH & RICHARDSON P.C.

*Attorneys for Respondent*
*Interactive Network, Inc.*